

PREPARING A BUSINESS PLAN

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Preparation of a well thought out business plan should be one of the primary goals of any and every business, existing or start-up. The formal business plan process sometimes seems intimidating, but is actually quite straightforward. A formal business plan serves four critical functions:

- Helps management or an entrepreneur to clarify, focus, and research business or project development needs.
- Provides a considered and logical framework within which a business can develop and pursue business strategies over time.
- Serves as a basis for discussion with third parties such as shareholders, banks, investors, and other interested parties.
- Offers a benchmark against which actual performance can be measured and reviewed.

Just as no two businesses are alike, so it is with business plans. A business plan is **not** homework assigned by a lender or a potential investor. There are no software programs or magic templates that will swiftly and effortlessly produce a strong, complete business plan. It is important to tailor a plan's contents to suit the particular company's circumstances, needs, goals, and direction. Nonetheless, most plans follow a well tried and tested structure on preparing a plan that is universally applicable. A business plan should tell the following story:

- Business history, or origin of a new business's idea
- Overview of what the business does, with a focus on how revenues are earned
- How the business is managed, structured, how records are kept, *etc.*
- Description of the market, how the product/service is marketed, and to whom
- If financing is required, how much, why, and how will it be repaid

This story should be a realistic view of the expectations and long-term objectives for an established business or new venture. It provides the framework within which it must operate and, ultimately, succeed or fail. By the end of the story, this narrative should set the stage for the accompanying financial projections, particularly the income projections.

Preparation of a comprehensive plan will not guarantee success in raising funds or mobilizing support. However, lack of a good solid plan will, almost certainly, hinder growth and/or ensure failure.

The following guide should serve as an outline for preparing your business plan.

Company Name

Address, etc.

Logo (if any)

BUSINESS PLAN

Statement of confidentiality

This document is confidential and has been made available to the individual to whom it is addressed strictly on the understanding that its contents will not be disclosed or discussed with any third parties except for the individual's own professional advisers. Prospective investors are advised to verify all material facts and to take advice from a professional adviser before entering into any commitments. This plan is strictly for information only and does not constitute a prospectus or an invitation to subscribe for shares. Projections in the plan have been compiled by the promoters for illustrative purposes and do not constitute profit forecasts. The eventual outcome may be more or less favourable than that portrayed.

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REMEMBER: Write your business plan in the 3rd person – avoid “I, We” and instead use company name or “*the company,*” etc.

1. Executive Summary

Write this summary once your plan is at its very final draft stage.

Hit the highlights and key issues. Avoid a lot of detail – focus on matters of strategic importance to the business. If desired, cross-reference the reader to the sections containing the detailed text.

Address the needs and interest of the reader – what information does the reader want to get orientated or to become interested in the business.

Have one paragraph to summarize the contents of each main section. Use of bullet points instead of continuous flowing text:

- Keep the length of this section below three pages.
- Give this section plenty of thought and time, as it is the most important part of the entire plan.
- Do not include any material in this summary, which is not also covered in the body of the plan.
- Give this summary and the draft final plan to an honest and critical outsider to review.

2. History & Present Status

Use this section to summarize achievements and performance (financial, sales, technical etc.) to date.

2.1 Background

Review the history of the business (or the origins of the idea if a start-up). For a start-up, this section could be covered in one-two pages. You may allow more pages for an established business and relegate detailed material to appendices.

Start by introducing the owner(s) of the business and then describe what the business does now.

Explain in broad terms how business evolved, and why was it started? Explain in terms of products/services, customers/markets, funding, and management, and R&D.

Use appendices or footnotes to discuss issues, events etc. in greater detail (if necessary) without disrupting the flow of the main text¹

2.2 Progress to Date

Explain the development of the business to its present status from sales/marketing, operational, and financial perspectives.

2.3 If Your Company is a New Company

Discuss the origins of your business idea. Call on your experience, your past observations, the “why” of your idea. Be positive, yet insightful. Remember – you are setting the stage for further detailed explanations, so be brief and concise.

¹ Footnotes can be used to explain or describe specific matters as they arise in the text without distracting from the main flow.

3 Product/Service Description

One-three pages should suffice for this section. Try to add a few pictures to the text and, if practicable, include a sample product or mock-up with the plan. Some companies augment this section with a good-quality video or computer-based slide presentation (if your audience warrants this).

- Keep descriptions of offerings (products and/or services) relatively short and confine them to broad groups. What products does the company offer?
- Explain briefly what they do and who will use them. Indicate advantages/benefits offered or the needs they meet. Avoid getting into technical terms and details. Summarize any product test results and product approvals secured or needed.
- Introduce competing products/services and explain what makes the company's product better and more competitive than the competition.
- Include any brochures or price lists to the plan.

3.1 SWOT Analysis

SWOT's (strengths, weaknesses, threats and opportunities) – regarding the company. This section should be between two-three pages.

Be very honest about any major weaknesses and threats and explain how you will respond to them.

The topics/issues within the plan should include:

Internal	External
Build on strengths	Exploit opportunities
Resolve weaknesses	Avoid threats

Build on the business's key strengths (name them) and resolve its weaknesses (name the areas) so as to enable the business to fully exploit its external opportunities (identify them) and avoid major threats (explain). Alternatively, an item along these lines could be included as part of the overall conclusion at the very end of the plan.

3.2 Strategies

Use bullets to highlight up to ten key strategies (actions, operating methods, etc.) in relation to major functional areas - markets, sales, products/services, technology, finance, management, operations *etc.* Be sure you are presenting medium-term strategies and not short-term tactics. State the goals of your company both long-term and present.

- Strategy 1:
- Strategy 2:
- Strategy 3:
- *Etc.*

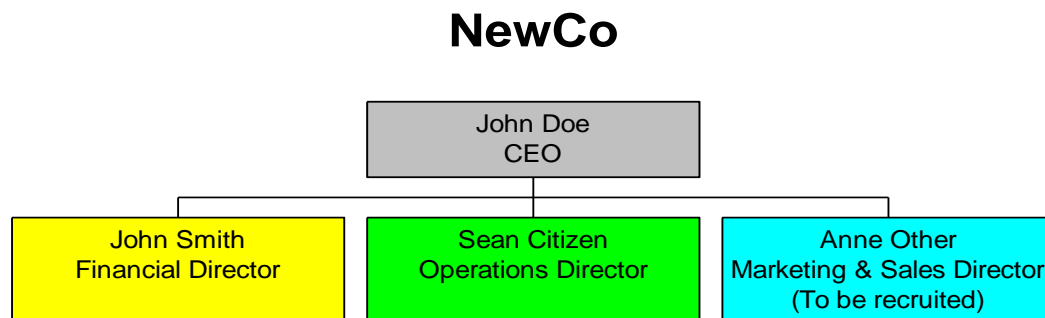
4 Management & Administration

Allow two-three pages for this section.

4.1 Management

Introduce the management team and their roles. Include short profiles about each key management position.

Use a simple organization chart to illustrate the structure.



Indicate any management gaps and explain measures to recruit. If necessary, present any job specifications in an appendix of the business plan.

- Attach Resumes of key management
- Summarize management remuneration.
- Include profiles for non-executive directors (existing/proposed).

4.2 Administration

Indicate locations and facilities (if more than one). Describe administrative duties and assignments.

Include skills and responsibilities of management and administration.

Explain key operational, accounting and related management systems (QuickBooks Pro, etc.). Specify communications and IT needs.

Indicate main components of overhead costs.

Provide list advisors – Attorney, CPA, Business Consultant(s), *etc.*

5 Operations/Manufacturing

Allow two-three pages for this section.

- Cover all aspects of distribution, service provision, support and/or manufacturing operations/process within this section. Analyze and project overhead expenses.
- Indicate locations and main facilities (if there is more than one). Describe plant/office/facilities capacity & utilization (past, present and future). Specify investments to date and future plans.
- Highlight major elements of operations. Use simple diagrams to illustrate processes or complex relationships (if needed).
- Explain transport/distribution arrangements and related costs.

5.1 Operational Plans

- Indicate your organizations, human resources (manpower, grades, skills, training etc.), product costing, quality control, production systems, maintenance, and customer support. Use simple tables to summarise and place detail in appendices.
- Specify unit cost rates for key inputs such as labor, payroll add-ons, utilities, communications, environmental regulations, *etc.* Explain how these might work in the future due to inflation, currency rates *etc.*

5.2 If Your Business is a Service Business

- Tell what your service is, why you are able to provide it, how it is provided, who will be doing the work, and where the service will be performed.
- Will you be providing service at the customer's location or will you work at your place of business? Remember that time involved and billable hours are a key to success in a service business.
- What makes your service unique and how is your business different from others in the industry?
- What are the features/advantages that will entice customers to buy from you (i.e., convenience, service, performance)?
- Will you offer any service guarantees/warranties?

6 Marketing Strategies & Sales Plans

Allow two-four pages for the section.

How will the business market its products/services and sell to customers? What are the key market entry/development strategies?

- Explain your pricing policies and credit terms (be realistic!). What discounts will apply and to whom? Will there be bad debts and what provisions should be made?
- Qualify and quantify the market with demographic support.
- Discuss packaging, physical distribution, sales support and product support highlighting their costs over time.
- Indicate plans and costs for marketing, selling, promotion, advertising, representation, *etc.*
- Indicate the competitiveness of your business's offerings in terms of price, quality, features, *etc.* What will be the end user prices and how will your products be presented to customers? How will your business deal with the competitors? How will they respond? What are your business's contingency plans?

Review the marketing and sales plans and ask whether your company realistically can achieve the projected sales levels and market shares. If in doubt, develop and present alternative scenarios.

Based on the analyses in the above section, set out detailed sales (volumes and prices) projections for the various markets and products/services. These projections should be monthly (for at least one year) and quarterly or annual thereafter.

You may choose to use simple tables and graphs to present key data. Include details in appendices.

Example Table

Sales	Quarter Ends in Year to Jan 2000				Annual
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	Total
	US\$000	US\$000	US\$000	US\$000	US\$000
Product Group:					
- Group1	61.0	66.0	74.0	86.0	287.0
- Group2	32.2	46.2	61.6	68.3	208.4
- Group3	15.8	22.8	30.4	33.7	102.6
- Group4	<u>57.0</u>	<u>64.0</u>	<u>69.0</u>	<u>76.0</u>	<u>266.0</u>
Total sales	166.0	199.0	235.0	264.0	864.0
% Quarterly changes	NA	19.9	18.1	12.3	

6.1 Profile of Target Market(s)

This is the most difficult section and needs *real* research. Allow about two-three pages for this very important section. It is very possible that detailed market research (field or desk) and analysis might need to be done *before* this section can be properly prepared. If research reports are available refer to their detail in appendices.

In this section, indicate market size, segments, trends, competition and user/customer profiles.

6.2 Market Analysis

Allow two-three pages for this section.

Describe the markets. Explain how they have evolved and how they are segmented. Indicate how both markets and segments will evolve in the future (at least for the life of your plan). ***Keep it simple and understandable!***

To learn everything you can about your industry overall, start by contacting the appropriate related industry trade associations (www.marketingsource.com). They should be able to provide information on the primary distributors for products like yours, as well as statistics on customer buying patterns nationwide. The local chamber of commerce should be able to give you some statistics on regional population trends, including how and where leisure dollars are spent in your geographic area. Don't forget to check out American Demographics and the American Association for Public Opinion Research. These resources will give you insight into the market at large. The local Small Business Development Center can also provide you with assistance finding market research information.

- Highlight the segments you are targeting. Explain their channels of distribution, promotional methods used and expenditure levels.
- Explain why the proposed target markets are so attractive to the business.
- Discuss product and technology trends.
- Review any regulatory restrictions on trade.
- Indicate the likely impact of any possible changes in anticipated economic conditions.
- Explain the company's 5 P's of Marketing - Positioning, Packaging, Placement, Pricing, & Promotion

6.3 Competition

Allow one-two pages for this section.

Introduce the main competitors (or near-competitors if a new market area) and profile them. Highlight their evolution, scale and activities. **Name each competitor by name**, using bulleted points. Assess their Swots (strengths, weaknesses, threats and opportunities) in detail.

Show how their market shares have evolved and their current standing in the market.

Identify any differentiating factors between your business and the competition.

6.4 Customers/Users

Allow one-two pages for this section

- Profile customers and explain how/why they will buy your products/services in preference to those of competitors.
- Segment prospective customers and discuss price, quality, promotional, distribution channel issues etc.
- Review customer-buying habits and consider the impact of economic issues on the levels of consumer purchasing.

6.5 Market Size & Segments

Allow one-two pages for this section.

- Use simple tables to show how market sizes, segments, and shares that are likely to move in the future.
- Avoid generalized statements like "we aim to achieve xx% of the xx market within three years". Build your projections from sound analysis and detailed assumptions. If a lender or potential investor asks about he projected sales numbers you will need to have solid data to back up the sales projections.

7 R&D and Technology

One-two pages should suffice.

- Keep technical details to the minimum and explain unusual terms. Use simple drawings or flow diagrams to help describe any complex issues.
- Introduce the key technology trends/developments (what's new/what's coming) within your industry or product area. Explain how are you responding to them.
- If R&D is relevant to the business, describe progress to date, plans, resources, and highlight any technological advances or achievements.
- Summarize existing/planned patents and describe the ownership status of all intellectual property rights (including trademarks, copyrights *etc.*).
- Summarize R&D expenditure to date and specify future expenditure plans. Identify milestones or specific projects to be completed. Where appropriate, provide short economic justifications for major projects.
- What technical expertise has been acquired by the business or is needed in the future? What are the qualifications/backgrounds of the technical staff and external advisers or partners?

8 Narrative Conclusion

Confine this section to a few carefully drafted paragraphs and write it once the plan is almost complete.

Review what the business expects to achieve. Indicate why it will succeed and why it should be supported. Be very positive and confident to encourage favourable reactions.

Tip: Get someone to read a near-final draft to check that the plan makes good business sense, reads well, and is clear. Ideally, that "someone" should be a detached, independent person involved in business with experience of your industry and/or business planning. Your local Small Business Development Center, SCORE Chapter, or someone with experience in your industry are all great resources for this assistance.

9 Financial Statements and Projections

This section should include:

- A three year projection of cash flow (1st year monthly);
- A three year projection of profit and loss (income statement);
- A three year projection of the balance sheet;
- Historical business information needed: Last three years tax returns and last three year ending Balance Sheets and Income Statements;
- Last three years Personal Tax returns may or not be needed.

In addition, the most current balance sheet and year to date P & L should be included. A break-even analysis is extremely helpful.

The most important section, and often the most poorly prepared, is a **Summary of Financing Needs**. This should be a one page, *itemized, detailed* list of each item your company requires.

- Equipment should have the manufacturer's name and model number, along with a description of what this machine does. If installation costs are required, a bid on the installer's letterhead stationary is a must. The same can be said for any contractor work required (general, electrical, plumbing, etc.) – obtain a written bid, and provide a copy in the "Attachments" section.
- If working capital is being requested, a detailed, supportable list of how this money will be spent is crucial to realizing your financing request. Any perceived "rounding up" or guessing at financing needs will set your request back, and weakens your credibility.

Example:

Acme Discombobulator, Model 700	\$26,400.00
Cat Forklift, Model 6000	\$8,950.00
Inventory (see attached detail)	\$6,265.00
Tenant Improvements (see attached bid)	\$11,890.00
Working Capital (see attached detail)	\$5,380.00
Total Financing Requested	\$58,885.00
Owner Capital Injection/Equity	\$25,000.00
Total Project	\$83,885.00

Appendix - XX

Enter Title of Appendix Here

Also known as the “Attachments” section. Pictures, graphics, letters of intent or understanding, sample forms, correspondence from suppliers, Resumés for the principal owner(s) and key employees ***anything*** that helps support or promote your business and its success belongs in this section.

Appendix Heading I

Appendix Heading II

Etc.